



## *Report to the Auburn City Council*

Action Item

7

Agenda Item No.

City Manager's Approval

**To:** Honorable Mayor and City Council Members  
**From:** Kim Juran, Administrative Services Director  
**Date:** March 10, 2014  
**Subject:** Results of Annual Audit – Fiscal Year 2012-13

### *The Issue*

For the City Council to review, receive and file the Comprehensive Annual Financial Report as it relates to the City's financial condition and fiscal management.

### *Action Requested*

Receive and file the Comprehensive Annual Financial Report for the City of Auburn for Fiscal Year 2012-13.

### *Background*

Pursuant to City Council Resolution 11-80, the City retained the firm of Smith & Newell, CPA's to perform an audit and prepare financial statements for the City of Auburn as of and for the year ended June 30, 2013. The external auditor's primary responsibility is to express an opinion on the financial statements based on the audit performed. Completion of an audit and accompanying financial statements is necessary to provide Auburn's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives.

As a means to demonstrate the City's fiscal accountability, City staff has worked closely with Smith & Newell over the last several months to complete the City's Comprehensive Annual Financial Report (CAFR). The CAFR provides a wealth of information for those interested in a local government's finances. In addition to the typical reporting sections found in a basic presentation of the financial reports, the CAFR includes a Transmittal Letter to the City Council, a comprehensive presentation of budget-to-actual comparisons for all budgeted funds, and an informative Statistical Section. Preparation of a CAFR better enables the financing community with which the City does business to assess the City's financial viability as it relates to current and future financing needs.

### Analysis

The scope of work undertaken by the external auditors includes the following:

- A report of the fair presentation of the City's financial statements in accordance with accounting principles generally accepted in the United States;
- A report on the City's internal control over financial reporting and tests of compliance with laws, regulations, contracts and grant agreement and any other matters deemed necessary and material;
- A report on the fair presentation of the financial statements in conformity with GAAP, including an opinion on the fair presentation of the supplementary schedule of federal awards "in relation to" the audited financial statements (Single Audit);
- A report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards;
- A report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133;
- A report on the City's compliance with Proposition 111, Article XIII B of the California State Constitution (Appropriations Limit);
- A management letter setting forth recommendations (as applicable) for improvements in the City's accounting practice.

The external auditor fieldwork was completed in July and September 2013, and the final reports were delivered to the City for review by staff in January 2014. Preparation of the final version of the CAFR also considered comments received from the Government Finance Officer's Association (GFOA) related to a review of the previous year's CAFR, which qualified for the GFOA's *Certificate of Achievement for Excellence in Financial Reporting*.

As a result of the audit conducted, the City has earned an "unqualified opinion" for its financials statements presented in the CAFR. As referenced in the Independent Auditor's Report on page 1 of the CAFR,

*"the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America".*

The CAFR is organized into three distinct sections:

- The Introductory Section familiarizes readers with the City of Auburn and includes the CAFR transmittal letter, the GFOA Certificate of Achievement from

the prior year, a summary of elected officials, and the City's high-level organizational structure.

- The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), audited basic financial statements, notes to the basic financial statements, and supplemental information including budgetary comparison schedules and fund-level financial statements. The audited basic financial statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary and other funds.
- The Statistical Section contains eighteen schedules which provide information on the City's financial trends, revenue capacity, and debt capacity, along with demographic and economic information, and governmental operating information.

As a means to enhance the usefulness and understandability of the CAFR, the MD&A Section (starting on page 3) discusses the financial condition of the City in an abbreviated format, describing the results of City operations both literally and graphically.

#### Selected Financial Information – Fiscal Year 2012-13

Selected financial information is presented below. This information will be discussed during a brief presentation to the City Council on this item.

##### *General Fund*

- ✧ Total General Fund revenues and other financing sources increased by approximately \$1.9 million from FY 2011-12 to FY 2012-13. The increase in General Fund revenues can be primarily attributed to:
  - A 20% increase in sales tax revenues, primarily due to the improving economy and significant increases in the price of gasoline and diesel fuel.
  - Proceeds from the issuance of debt/capital lease obligation secured \$643,021 in funds to the General Fund in 2012-13. These funds were used to purchase a new fire truck and dump truck.
  - A \$200,000 increase in Other Revenues from the one-time receipt of revenues due to a multi-year refund of overpaid property tax administration fees.
  - Off-setting these increases was a 2.6% decrease in property and property-related taxes revenue due to the continuing housing crisis and declining assessed valuations for real property in 2012-13.
- ✧ Total General Fund expenditures and other financing uses increased by 21% or approximately \$1.7 million from FY 2012-12 to FY 2012-13. The increase can be primarily attributed to:

- A \$323,861 increase in public safety costs due to increased personnel costs, including the additional staffing in the Fire Department paid by the Federal SAFER grant.
  - An increase of \$1 million in capital outlay resulting from General Fund support of capital projects including the Dairy Road Overlay, Palm Avenue Sidewalk, and Fiscal Year 2012-13 Street Overlay Project, as well as the purchase of a new fire truck and new dump truck.
- ✧ General Fund fund balances (reserves) increased by approximately \$264,600 during FY 2012-13. As of June 30, 2013, General Fund fund balance (reserves) total \$2.99 million and consist of the following:

Economic Contingency (committed):	\$ 2,250,000
Non-Spendable Reserves:	63,016
Unassigned Reserves:	<u>679,331</u>

Total General Fund Reserves:	<u>\$ 2,992,347</u>
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#### Citywide

- ✧ Combined net assets of the City's Airport and Sewer Enterprise operations increased by approximately \$1.18 million during FY 2012-13.
- Sewer Enterprise Fund net assets increased by approximately \$1,066,385 as a result of revenues from increased collections of sewer use charges.
  - Airport Enterprise Fund net assets increased by approximately \$111,560, primarily due to increased collections of Auburn Airport lease revenues offset by increased costs for staff, materials, and capital maintenance.
  - As of June 30, 2013, the Sewer Fund net position was \$16.91 million, while the Airport Fund net position was \$11.12 million.
- ✧ Major capital asset additions during FY 2012-13 include the following:
- Airport Lighting and Signage Project
  - Purchases of a crane truck and televising van for Sewer Program
  - Upgrades towards the Auburn Oaks Lift Station
  - Improvements towards the Palm Avenue Sidewalk
  - Renovation of the Old City Hall building
  - Upgrades towards the Auburn Police Department CAD System
  - Purchase of a new fire truck for the Auburn Fire Department.
- ✧ The City's total debt for its governmental activities increased by approximately \$361,542 as a result of incurring new debt for a fire truck in addition to increased liabilities related to compensated absences and postemployment benefits.

- ✧ The City's total debt for its business type activities decreased by \$846,433 as a result of the City continuing to pay down outstanding debt related to the Wastewater Treatment Facility Upgrade and loans related to prior sewer and airport projects.

### Management Report

As a supplement to the Financial Report and Audit Opinion, the external auditors may provide the City with a Management Report. The Management Report provides recommendations for improvements to internal controls determined during the course of conducting on-site fieldwork and/or preparing the financial statements.

### Alternatives Available to Council; Implications of Alternatives

1. Receive and file Fiscal Year 2012-13 Comprehensive Annual Financial Report.
2. Direct staff to prepare additional supplemental and/or supporting material for City Council review.

### Fiscal Impact

None.

Attachments – City of Auburn Comprehensive Annual Financial Report as of  
June 30, 2013

*A copy of the Comprehensive Annual Financial Report (CAFR) is available in City Clerk's Office for review. The CAFR is also available online at:*

*<http://www.auburn.ca.gov/services/AdminServ/Docs/2013%20Auburn%20CAFR%20Final.pdf>*

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